Department of the Navy Financial Improvement Program

DON FIP Status Update – ASMC PDI Conference 2011

Presented by Mr. Russ Strother

1 June 2011

Agenda

- DON FIP Overview
- DON FIP Accomplishments and Challenges
- Current DoD Strategy for Auditability
- Dissecting the SBR POA&M
- Key Risks Associated with SBR POA&M
- Wrap-up

DON Financial Improvement Program (FIP)

Know your business. Control your future.
Test for Success.

What is the DON FIP?

- The DON FIP is a multi-year Department-wide effort to strengthen Navy-Marine Corps business processes and systems, transforming them so that they better serve worldwide operations
- Results of this transformation will include financial information that is accurate, reliable, and accessible
- The ultimate goal is a to obtain an unqualified audit opinion of DON's financial statements
- DON has prioritized focus on SBR audit readiness and E&C of mission critical assets

DON FIP Accomplishments and Challenges Encountered

Accomplishments

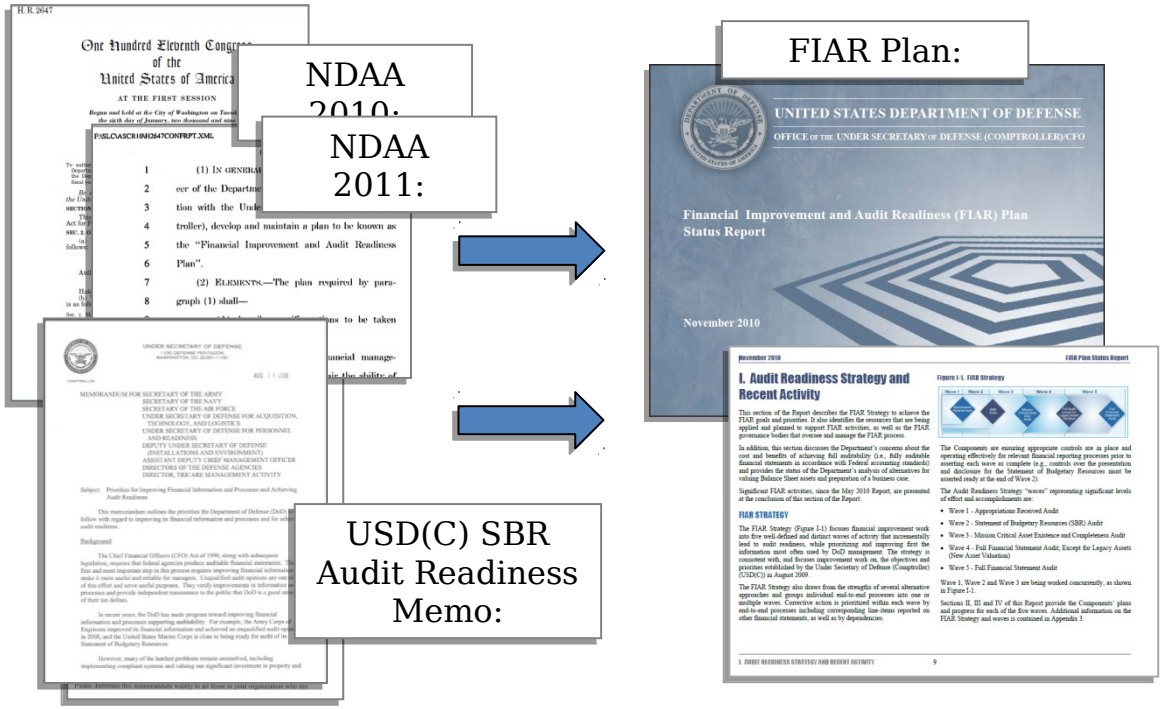
- Business Process Segment Assertions (Navy General Fund)
  - Funds Receipt and Distribution (Appropriations Received)
  - Environmental Liabilities
  - Contingent Legal Liabilities
  - NAVSEA Weapons Systems: Ships and Submarines
  - Cash and Other Monetary Assets
  - Investments
  - Civilian Payroll
  - Transportation of People (Temporary Duty Travel)
- Existence & Completeness of Mission Critical Assets
  - Asserted E&C of Ships and Submarines, Aircraft, Trident Missiles (ICBMs), Satellites, and Ordnance – over $300B Net Book Value (unaudited)
- USMC SBR under audit
  - Asserted audit readiness and underwent an audit of their Statement of Budgetary Resources financial statement in FY2010; no audit opinion rendered
  - Follow-on engagement has commenced for FY2011

Challenges Encountered

- Program coordination across diverse business lines in a geographically dispersed organization
- Inter/Intra DoD Agency Coordination; constant engagement of process owners (e.g. DFAS, DLA), stakeholders outside of the FM community (e.g. Acquisitions, Logistics), other military branches is required to succeed
- Change management: “It takes a village.”

Current DoD Strategy for Auditability

- DoD Strategy for audit readiness was set by USD(C)
- Priorities were established based on financial information most valued by decision-makers
  - General Fund Statement of Budgetary Resources (GF SBR)
  - Existence & Completeness of Mission Critical Assets
- Additional priorities further demonstrate and validate financial stewardship
  - Audits and examinations of asserted segments (including USMC SBR audit)
  - Validation of a Major Defense Acquisition Program / Navy ERP entity


NDAA 2010:
NDAA 2011:
USD(C) SBR Audit Readiness Memo:
FIAR Plan:
UNITED STATES DEPARTMENT OF DEFENSE
OFFICE OF THE UNDER SECRETARY OF DEFENSE (COMPTROLLER)/CFO
Financial Improvement and Audit Readiness (FIAR) Plan Status Report
November 2010
I. Audit Readiness Strategy and Recent Activity

OSD FIAR Plan Presents a "Wave" Structure to Reach Audit Readiness Goals

- **Waves 1 & 2:** GF SBR Audit Readiness
- **Wave 3:** Existence & Completeness of Mission Critical Assets
- **Waves 4 & 5:** Valuation of Assets and Full Auditability

SBR POA&M – “Left Side / Right Side “ Chart

DON SBR Audit Readiness POA&M

Financial Environment

Substantive Based Significant to Beginning Balances (2011)	Substantive/Controls Based Significant to Year Under Audit (2011/2012)
Transaction Universe Transactions Grid Sheets GL Accounts Trial Balances **FBWT** All Open Appropriations **Financial Statement Compilation** Unadjusted Trial Balance Adjusted Trial Balance Crosswalks (General Ledger DDRS-B DDRS-AFS) **Unliquidated Obligations** Bulk Obligations Contract Closeouts	**Transaction Universe (maintain)** **Business Process Cycles/Segments** Contract/Vendor Pay Military Pay Reimbursable Work Orders Civilian Pay MILSTRIPS **FBWT** **Financial Statement Compilation** **Bulk Obligations (Estimation Models)** **Adjustments/Journal Vouchers**

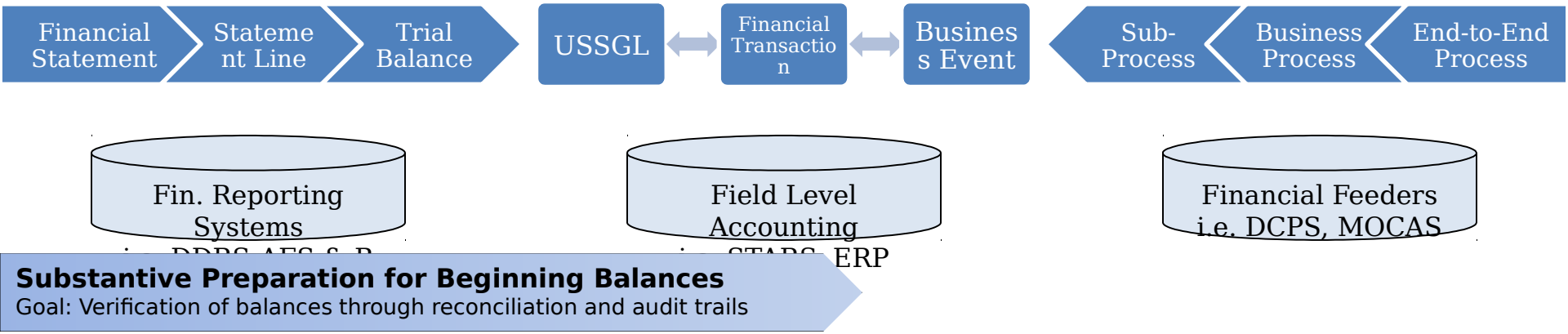
Key Automated Systems
DON owned Other DoD or Government owned

Key Reconciliations / Testing
FBWT Military Pay Civilian Pay Trial Balances
Attribute Sample Testing

Audit Infrastructure

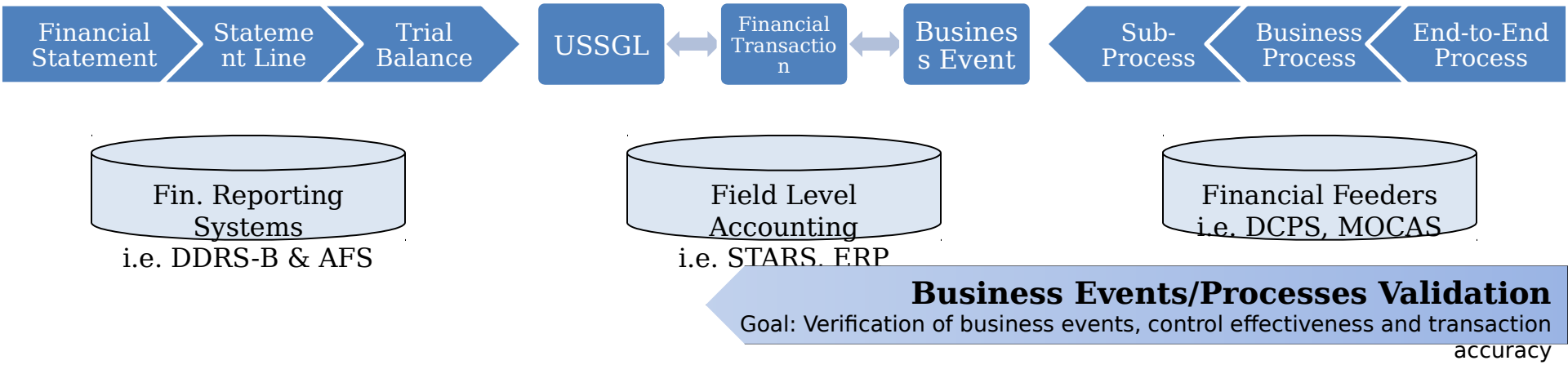
Data Management	Communications	Human Resources

Working Towards SBR Audit Readiness- "The Left Side"



- The Left Side focuses on establishing the basic building blocks that allow an audit to occur.
  - Detailed financial transaction universe tied through to the financial statements
  - Financial statement compilation crosswalks support proper accounting
  - FBWT reconciled to GWA at the transaction level
- Attribute sample testing and analysis (such as ULO analysis) assesses accuracy of financial transactions in beginning balance universe
- Effort performed centrally; significant coordination with DFAS and ODCMO required to complete the Left Side

Working Towards SBR Audit Readiness- "The Right Side"

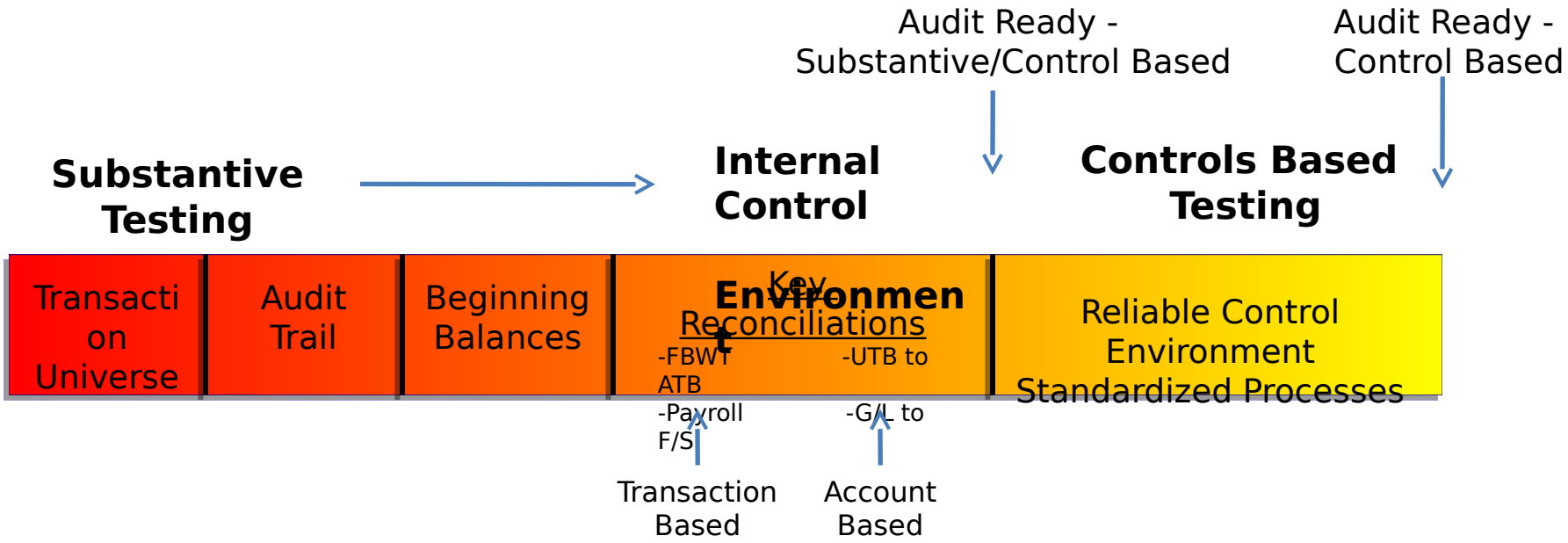


- The Right Side focuses on evaluating if DON business processes generate accurate, reliable, and timely financial transaction
  - Business process/event documentation including how business events lead to financial transactions
  - Internal control assessment
  - Substantive (including attribute sample testing) assessment (transaction support)
  - Correction of weaknesses that could lead to material misstatement
- The Right Side requires coordination with DON functional community (M&RA for Civilian Pay) and external stakeholders (i.e. DCMA for Contract Pay) to achieve audit readiness

Path to Audit Readiness

- DON evaluates audit readiness through three categories:
  - Reconciling the audit trail (Detailed transactions tied through to financial statements)
  - Internal control effectiveness
    - Business process controls
    - IT general and application controls
  - Attribute sample testing

- Each category requires corrective action to reach DON's goal; however, the progression to audit readiness will build with heavier reliance on substantive testing initially



Attribute Sample Testing (Substantive Testing)

- The purpose of Attribute Sample Testing is to provide evidence for the existence of audit trails and substantiate financial transactions
  - Reliance on controls will be limited in a first time audit, as demonstrated through the USMC SBR Audit experience
  - Test program scope covers all SBR line items and tests key attributes associated with SBR transactions
- Round 2 results thus far:

Documentation Submission Results			
	# Requested	**# Provided**	**% of Documents Provided**
Sample Documentation Requested / Provided	1567	1309	83.5%
	# Provided	**# Without Exceptions**	**% of Samples without exception**
Samples Received w/o Error	1309	297	22.7% out of 1309; 19.0% out of 1567

Attribute sample testing helps DON:
1) Identify transaction types which regularly lack source document support;
2) Exercise audit response capabilities

Significant Audit Impediments Identified to Date

Risk Area	Risk	Potential Impact to Plan
Reconciliation of transaction universe to unadjusted trial balances	• STARS-FL does not possess a capability to readily pull supporting detail transactions from its history tables to support GL account balance • ERP transaction universe gathered to date does not include all required data elements	• Completion date of 9/30/2011 is risky due to additional testing required for STARS FL; required element before SBR assertion; • Working with Navy ERP PMO to gather updated ERP transaction universe
Fund Balance with Treasury	DON must reconcile GWA to DON General Ledgers at the transaction level for all open appropriation - fiscal years on a monthly basis	FBWT Reconciliation currently scheduled to be complete by 9/30/2012; DON working with DFAS to assess feasibility of meeting date
Documentation Support for Transactions	Source documentation to support transactions not consistently available/accurate during attribute testing	Conduct scheduled 8 rounds of attribute sample testing scheduled prior to 11/1/2012 incorporating lessons learned developed after each round
Audit Response Infrastructure	DON not prepared to respond to an audit of the size and scope of the SBR audit	Plan tasks defined to develop an audit response infrastructure including data management, communications, and training of resources
IT General Controls	DON relies on existing DIACAP process for certification & accreditation of systems; gap to FISCAM exists.	Initial analysis comparing FISCAM to DIACAP complete; working to establish testing plan for most material systems

Wrap-Up

- Plan has been updated, strengthened
- Comptrollers, leadership can help through:
  - Increasing awareness and education of the importance of DoD/DON financial improvement
  - Encouraging a culture of responsibility and stewardship by financial managers
- This is more than an FM exercise
- The goal of SBR assertion is rapidly approaching, and everyone's support is appreciated